AN OUTLINE

OF THE

MONEY MARKET.

BY

ERNEST EVAN SPICER,

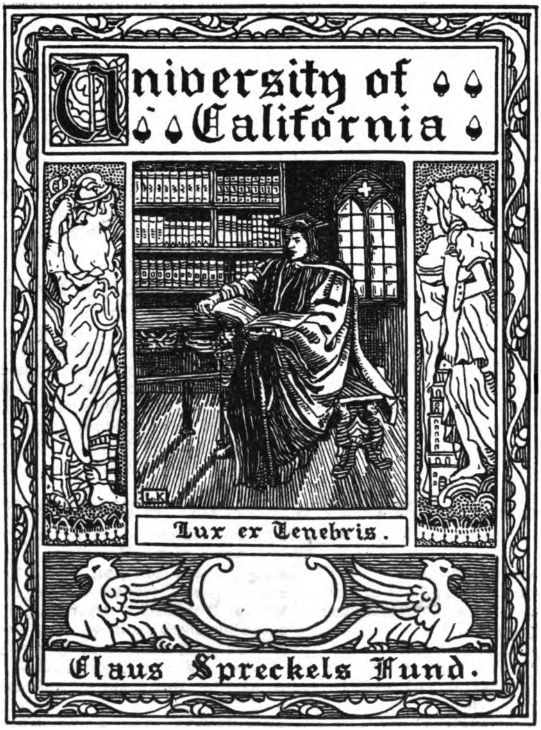
Fellow of the Institute of Chartered Accountants in England and Wales.

ACCOUNTANCY BOOKS

Published by

G **N, E.C.**

TH] ekly news-
pa eign, 26*s*.
Issu he recognised
organ It contains
Origin eeping (with
specin l as Reports
of all of Joint Stock
Comp rtnerships, of
intere rs of Interest
to the



ACC iewspaper.
l.
The to meet the
requir means over-
looked is appears in
each r ig with some
matter ous Students'
Societ ir.
Vols. *r 72/- for the*

ACC the above
he iitable for all
cl at a uniform
pr for which the
pr of 2*s*. 6*d*. per
vc ceived at this
re oscribers who
m r, commence
th ublished, and
Su n.

ACC **S.** (Third
Revised and Enlarged Edition.) Price 10*s*. 6*d*. net, post free U.K.; abroad 11*s*. 3*d*.
By Fras. W. Pixley, F.C.A., Barrister-at-Law.

One of the great wants of Members of the Profession is a Standard work of the Charges of Chartered Accountants, to which they can refer their clients, when asked either to quote a fee for future services or to support an account of Charges already rendered. This work contains the Scale of Charges which prevails amongst the leading practising *London Chartered Accountants* for *Auditing*, making *Investigations*, &c.—The *Charges of Liquidators*.—The *Charges of Special Managers and Trustees in Bankruptcy*, *Receivers in Chancery*, &c.—The *Charges for Assisting Debtors and Directors of Companies in Liquidation* in the preparation of the *Statement of Affairs*.—The *Charges of Arbitrators*, *Witnesses*, &c.

ACCOUNTANTS' DIARIES (Yearly), ruled, &c. Prices from 1*s*. 6*d*. to 10*s*.—Editions Nos. 1, 2, 3, and 3A are specially Ruled and Headed according to the Pattern approved by most practising Accountants. All Editions except the 1*s*. 6*d*. contain a Directory of Accountants and much useful information.

ACCOUNTANT'S AND BOOKKEEPER'S VADE-MECUM. Price 7*s*. 6*d*. net, post free U.K.; abroad 7*s*. 11*d*. By G. E. Stuart Whatley, Accountant (Exam. Inst. C.A.).

The Work consists of a *Series of short and Concise Articles* upon *Capital and Revenue Expenditure*, *Revenue Accounts*, *Deficiency Accounts*, *Depreciation*, *Reserve and Sinking Funds*, *Adjustment of Partnership Accounts*, *Joint Stock Companies' Accounts*, *Tabular Bookk*[redacted]*ounts*, and other matters not *generally dealt with* [redacted]g, together with useful *Forms* and *Directions*.

ACCOUNTANT'S CO[redacted]hird Edition.
A complete Lexicon for Accou[redacted]awson, F.C.A., F.C.I.S., F.S.S. Price 25*s*. ne[redacted]

CATALOGU[redacted]

[881.2M.309.]

ACCOUNTANTS' MANUAL, published biennially, with Index. Subscription 3s. 6d. per annum. Vols. I., II., III., IV., V., VI., VII., VIII., IX., X., and XI., now ready, price 12s. 6d. each (except Vol. III., 10s. 6d.) or £5 10s. the set post free U.K.; abroad £5 16s. Also issued in parts every June and December, price 2s. 6d. each.

The only complete and full set of Answers to the Questions set at the Institute of Chartered Accountants' Examinations, dating from December 1884. These Answers are designed to give the fullest and most reliable information on each question asked, and are compiled with a view to lasting reference.

ADVANCED ACCOUNTING. Third Edition. Revised and Enlarged. Price 21s. net, post free U.K.; abroad 22s. 4d. By LAWRENCE R. DICKSEE, M.Com., F.C.A. (Author of "Auditing," "Bookkeeping for Accountant Students," &c.)

This work will be found of the greatest value to Candidates for the Final Examination of the Institute, and to all serious Students of Accounts. In addition to an exhaustive treatment of the subject from an Accountant's point of view, an Appendix is included, which has been written by J. E. G. DE MONTMORENCY, B.A., LL.B. (Cantab), of the Middle Temple, Barrister-at-Law, dealing with the law relating to accounts, and the requirements of the Courts and of lawyers in connection therewith.

AUDIT NOTE-BOOKS. Nos. I. & II., Price 7d. (net) each, post free. 5s. per dozen. 40/- per hundred post free U.K.; abroad 42s. 6d. No. III.—Price 2s. 3d. per copy net post free, 20s. per dozen post free U.K., abroad 22s. 6d.; or 70s. for 50 copies post free U.K., abroad 85s.; and £5 10s for 100 copies. No. 1—Suitable for a Monthly Audit. No. 2—Suitable for a Quarterly or Half-yearly Audit. Name and address printed on Covers free on orders of 100 or more copies. No. 3—For Important Audits. 100 pages, Foolscap 4to.

AUDITING. A Practical Manual for Auditors. Seventh Edition. Price 21s. net, post free U.K.; abroad 22s. 3d. By LAWRENCE R. DICKSEE, M.Com., F.C.A.

A New and Enlarged Edition of this Standard Work. The text has been thoroughly revised, in part re-written, and brought entirely up to date. Special attention has been devoted to the Accounts of Local Authorities and their Audit, Depreciation, Sinking Funds, &c.

AUDITS. 160 pages, Price 5s. 4d. net, post free U.K.; abroad 5s. 6d. By ARTHUR E. CUTFORTH, A.C.A. This little work has been compiled with two main objects. It is an attempt to lay down, within the limits of a book of moderate size, the main duties of Auditors, and the principles affecting their work, and regard has also been had to the needs and requirements of Students for Examinations, in the choice and treatment of the subjects dealt with.

BANKRUPTCY. Second and enlarged Edition. Price 7s. 6d. net, post free U.K.; abroad 8s. By T. M. STEVENS, D.C.L., Barrister-at-Law.

This work, whilst treating the subject from a legal point of view, will still *be of use mainly to Chartered Accountants* and others. The general outlines of the subject, *i.e., the text of the Acts, as explained by leading cases, is what is wanted, and what this work has endeavoured to give.*

BANKRUPTCY TRUSTEE'S ESTATE BOOK, THE. Second Edition. Price 4s. 4d. net, post free U.K.; abroad 4s. 5d. Compiled by LAWRENCE R. DICKSEE, M.Com., F.C.A. Author of "Auditing," &c.

This Book contains the whole of the information likely to be required by Trustees in Bankruptcy in such a form that in conjunction with the "Record Book" it provides a complete statement of all the facts relating to any particular estate, entirely doing away with the necessity for memorandum and loose sheets, which are so frequently lost.

BOOKKEEPING EXERCISES for Accountant Students. Demy 8vo, about 96 pages. Price 3s. 9d. net, post free U.K.; abroad 3s. 11d. By LAWRENCE R. DICKSEE, M.Com., F.C.A., Author of "Auditing," "Bookkeeping for Accountant Students," "Bookkeeping for Company Secretaries," &c.

BOOKKEEPING FOR ACCOUNTANT STUDENTS. Fifth Edition. Complete, with Index, 10s. 6d. net, post free U.K.; abroad 11s. 2d. By LAWRENCE R. DICKSEE, M.Com., F.C.A. (of the firm of Sellars, Dicksee & Co.)

Contains a full and complete explanation of the *Theory of Double Entry*, and is supplemented by copious *Exercises* and *Questions* that combine to make it a work of the highest educational value.

SPECIAL TERMS FOR PUBLISHING AUTHORS' WORKS.

AN OUTLINE

OF THE

MONEY MARKET.

BY

ERNEST EVAN SPICER,

Fellow of the Institute of Chartered Accountants in England and Wales.

LONDON: GEE & CO., 34 MOORGATE STREET, E.C.
1908

PREFACE.

MY object in writing this pamphlet has been to kindle in the minds of Accountant Students, and possibly Practitioners, an interest in this Branch of Political Economy which is so closely allied with the Accountancy Profession.

I am aware that I have treated portions of the subject deserving much fuller consideration, within the limits of a page or two; but my object has been to trace an outline, and an outline only.

The Suggested Scheme for increasing the Gold Reserves of the country may, I hope, interest students of the subject; for I do not think that it has been previously considered. Doubtless it contains flaws which at present are not apparent to me. I shall, however, welcome any criticism.

ERNEST EVAN SPICER.

60 Watling Street,

London, E.C.

October 1908.

SYNOPSIS.

	PAGE
The Evolution of the Money Market	5
The Importance of the Banking Element	8
The Origin and Development of Banking	8
Banking and the Bank of England	14
How the Banker obtains his Funds	14
(1) The Paid-up Capital	14
(2) Deposits at Interest	15
(3) Current Accounts	15
(4) Bank Notes	15
(5) Bankers' Drafts	16
How the Banker uses his Funds	16
(1) Non-Profitable	17
(2) Profitable	18
The Bank of England..	19
Management of the Bank of England	20
State Protection	20
The Duties carried out by the Bank of England for the Government	21
Duties carried out by the Bank of England for the Nation ..	21
The Bank Act, 1844	21
Suspension of the Bank Act, 1844	22
Chief Provision of the Bank Act, 1844	24
The Bank of England Weekly Return	25
Issue Department	26
Government Debt and other Securities..	26
Gold Coin and Bullion	26
Notes Issued	27
Banking Department	27
Proprietors' Capital	27
Rest	28

PAGE

Banking Department—*continued.*

Public Deposits 28
Other Deposits 28
Seven Day and other Bills 29
Government Securities 29
Other Securities 30
Notes, Gold and Silver Coin 30

The Bank Rate 31
When usually high 33
When usually low 33
Interest allowed on Bank Deposits 33
Objects aimed at in Alteration of the Rate 33

Foreign Exchanges 34
Bills of Exchange 34
Balance of Trade and Balance of Indebtedness 35
India Council Bills 37
Mint Par 38
Specie Point 39
High Rates of Exchange 40
Low Rates of Exchange 40
The Bank Rate in connection with the Exchanges 40
Arbitrage Operations 42
Course of Exchange 44
Long Rate 45
Short Rate 45
The Reconciliation of the Long and Short Rates 46
The Gold Reserves 47
England's Small Gold Reserve 48
England's Credit 48

A Scheme to Increase the Gold Reserves 50
Arguments in Favour of the Scheme 52
Position of Leading Joint Stock Banks at 30th June 1908 .. 55

AN OUTLINE OF THE MONEY MARKET.

The Evolution of the Money Market.

THE term "The Money Market" is, strictly speaking, a misnomer, as no actual market in the ordinary sense of the word exists for the purchase and sale of money.

The phrase indicates the collection of all dealers in money on a large scale, and includes Bankers (both Private and Joint Stock), Bill Brokers, Discount Houses, the Stock Exchange, Insurance Companies, Foreign Banks, and Financial Houses. The Indian Government, and also the British Government, operate in the Money Market from time to time, and, in order to obtain an intelligent idea of national finance, it is essential to consider the bearing of each of these factors upon the Money Market as a whole.

London has been for centuries the chief of all financial centres. It is true that other cities have increased, and are increasing, considerably in importance; but nevertheless London remains the only free market for gold, and Great Britain still maintains her premier position in the financial world.

It is interesting to consider the causes which have led to this effect:—

(1) The natural energy and spirit of the people must be taken into account. Great Britain owes these characteristics largely to her early history, to the Roman Invasion, and more especially to the blending of the ancient Saxon and Norman races subsequent to the Norman Conquest.

(2) The geographical position of the country is an important consideration. An island is less subject to foreign invasion than an inland country, and therefore commerce is not so seriously affected by war, and as a direct consequence tends to advance more rapidly.

In Great Britain there is no important town at a greater distance than sixty miles from the sea coast. This both facilitates the mode, and cheapens the cost, of transport.

(3) Great Britain in very early times recognised that a command of the sea and of the shipping industry was essential to her future prosperity. This led to commerce with foreign centres, and a consequent expansion of trade. Colonies were founded and markets established in all quarters of the world.

(4) Continual wars and religious intolerance on the Continent drove to these shores many of the most skilled of the foreign merchants, who laid the foundations of many of the industries to which Great Britain largely owes her wealth and importance.

Three times has France given us of her best, and each time we have benefited accordingly.

The Normans have already been mentioned. The Huguenots came over to the number of over 50,000 shortly after the Revocation of the Edict of Nantes in the reign of Louis XIV. They established themselves in various centres as silk workers, cotton spinners, wool carders, weavers, and as workers in many other industries. It is no exaggeration to say that their presence materially assisted in building up the trade and commerce of the Empire.

Lastly, we have the Emigrès, many of whom fled to England at the time of the Revolution.

(5) Of all the great Powers of Europe, Great Britain alone extended a more or less open hand to the Jews. As the Jews have from very early times been intimately connected with Banking and monetary transactions, this policy has unquestionably assisted materially in building up our commercial prosperity.

These, with many other causes which are apparent to all readers of history, have been the foundations upon which Great Britain has built. The intimate relations with foreign markets and the command of the sea, further assisted in the work by compelling foreign merchants to send their goods through London to be re-shipped and despatched to their ultimate destination. We derived a profit from handling the goods, and British ships earned the freight.

The settlements for these transactions were also effected through the intermediary of this country by means of Bills of Exchange. This mode of payment was practically forced upon the foreigner, because England had direct dealings with all nations, whereas until comparatively recent years reciprocal transactions between foreign centres were extremely rare.

Thus we profited not only by our own trade, but by foreign trade, viz.:—

(1) We transhipped the goods.

(2) We conveyed the goods.

(3) We acted as International Bankers and settled the accounts between the different parties.

The direct trade of the country received a stimulus from foreign trade, the commercial turnover of the nation increased by rapid strides, and the credit of the country became firmly and widely established.

The Importance of the Banking Element.—

The business of Banking is the most important of the factors in the monetary supply and demand. So great is the confidence in the stability of the great Joint Stock Banks, and so important are the facilities afforded by them to all classes of society, that they are now regarded as an indispensable element of modern life and business. The result is that most of the surplus money of the country is deposited with them, and they hold many millions, the great bulk of which is repayable on demand

The Bankers thus control an important part of the supply, and in the course of business they also meet the demand; either by honouring the drafts of their customers, or by financing Merchants, Bill Brokers, Stock Brokers, and others. All operations of the Money Market ultimately tend to affect the position of the Banks, either through the attraction or loss of actual coin to them, or through the adjustment of accounts as between one Bank and another. It is therefore interesting to trace the origin and development of Banking in this country.

The Origin and Development of Banking.

Banking owes its origin to Trade; and Trade dates back to the dawn of civilisation.

In remote times Trade was carried on under a system of barter, but as civilisation advanced it was found necessary to adopt some more convenient mode of settling transactions, and this resulted in the evolution of a definite coinage.

The Jews, who came over to this country at the time of the Norman Conquest, were the first to start business in monetary transactions. They made advances to the Kings and Nobles on the security of land, property, jewels, &c.; they charged high rates of interest, but to a large extent this was forced upon them through direct and indirect persecution. Their

importance declined somewhat in the early part of the fourteenth century, when the Lombards, who were skilled Italian Goldsmiths and moneylenders, came over to this country, settled in that part of London which still bears their name, and started a primitive Banking business.

The Commerce and Trade of the country expanded considerably during the succeeding 300 years, and the importance of Banking increased accordingly. The Tower of London was utilised as a Safe Deposit, to which Merchants sent their surplus funds for safe custody. This continued until Charles I. appropriated £200,000 of the money so deposited, and, although it was shortly afterwards repaid, the feeling of security disappeared, and the practice was not renewed. Then followed a period when the Merchants acted as their own Bankers. but this proved unsatisfactory, owing to the very unsettled state of the country, which was at that time harassed by the Civil War.

Consequently another scheme had to be devised to meet the situation. The Goldsmiths, who for years had combined moneylending with their recognised trade, came forward, offering the Merchants a small rate of interest on all Deposits entrusted with them, and thus the beginning of a definite Banking business was evolved. The Goldsmiths made their profit by lending the money obtained from the Merchants to the King on the security of the revenue, at a considerably higher rate of interest than they paid for it. In 1672, however, Charles II. suddenly ordered the Exchequer to be closed, refused to repay any of the sums deposited (which amounted to approximately £1,300,000, a very large sum for those days), and in consequence ruined half the Banker Goldsmiths and many of the Merchants who had deposited their surplus funds with them.

This extraordinary conduct so exasperated the public that Charles was forced to pay interest on the amount thus seized at the rate of 6 per cent. per annum. The interest was paid until

the closing year of his reign, when an arrangement was made whereby the claimants were allotted Stock to an extent of about 50 per cent. of the actual amount, in full satisfaction of their debts.

In this way the National Debt of Great Britain first came into existence.

In the reign of William and Mary considerable difficulty was experienced in raising the necessary funds for carrying on the war with France, and in the year 1691 a scheme was put forward by William Patterson, a Scottish Merchant, to establish a public Joint Stock Bank, which, in consideration for certain powers and privileges, should advance money to the Government. This scheme was opposed by the Goldsmiths and Moneylenders, who recognised that their business would be considerably endangered by the establishment of such a Bank, but in spite of all opposition a Bill was eventually passed through Parliament establishing the Bank of England.

The original basis of the Bill was that the public should be asked to subscribe a sum of £1,200,000, and that a Corporation should be formed, to be known as the Governor and Company of the Bank of England. The whole of the money thus subscribed was to be lent to the Government at 8 per cent. interest, and in addition to this the Government were to pay a sum of £4,000 per annum for management and expenses. Further, the public were to be invited to subscribe a sum of £300,000 to form the working capital of the Bank, for which the contributors were to receive terminable Annuities. The Charter was for ten years, and contained certain restrictions as to the borrowing of money, which limited the note issue to the extent of the capital of the Bank.

The early history of the Bank of England was attended with many difficulties, and many obstacles were thrown in its way

with the object of hampering its success. The Directors, however, were men of considerable energy and intelligence, and by their united efforts gradually succeeded in establishing the Bank on a more or less firm foundation. The Charter was renewed from time to time. The powers and privileges of the Bank were altered, sometimes in favour of the Bank, sometimes against it.

In the year 1708, an Act of Parliament was passed granting, to all intents and purposes, a monopoly of Joint Stock Banking to the Bank of England.

By this Act it became unlawful for "any body politic or corporate whatsoever, created or to be created (other than the said Governor and Company of the Bank of England), or for any other persons whatsoever, united or to be united in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their Bills or Notes, payable on demand, or at a less time than six months from the borrowing thereof."

The direct consequence of this Act was the establishment of large numbers of small Private Banks. They issued notes, and prospered in good times. As soon as a financial crisis came about, however, they failed one after the other.

Towards the end of the eighteenth century a financial crisis arose owing to the threatened invasion of this country by Napoleon I. This caused a steady drain on the Bank's reserves, and, in the year 1797, the Bank of England found it necessary to place their position before the Government. This resulted in an Act of Parliament being passed which enabled the Bank to refuse payment of its notes in gold, and it was not until the year 1821 that the Bank resumed paying in cash on demand.

In 1826, the Bank of England gave up its monopoly of Joint Stock Banking, except within a radius of sixty-five miles of

London, and at the request of the Government established branches in various parts of the country.

In the year 1833, the monopoly of Joint Stock Banking was wholly surrendered, although no Bank with more than six partners was allowed to issue notes within a radius of sixty-five miles of London. This did not restrict Joint Stock Banking apart from the question of note issue, but at that time it was considered almost impossible to carry on a Banking business without a note issue.

The Act of 1833 constituted Bank of England Notes legal tender, except as far as the Bank itself and its Branches were concerned.

In the year 1834, the London and Westminster Bank was started, and, being successful from the first, was quickly followed by several others. These Joint Stock Banks laboured at first under very considerable disadvantages. They were prohibited from accepting Bills of Exchange having a less date to run than six months; they were not allowed to be represented in the London Clearing House, which was started in the year 1775 by the Private Bankers, and which for many years they kept entirely to themselves; and other difficulties were thrown in the way of their advancement. But they forged ahead; slowly at first, as it was not for some years that any of them realised the possibilities to be derived from Branch Houses.

The Act of 1844 relieved the Joint Stock Banks of many of their initial troubles, and from that date they have continued to grow in magnitude and importance, until to-day they form the very backbone of the nation's credit.

The altered and improved conditions of Banking are almost wholly the work of the great Joint Stock Companies.

Deposit Banking has extended to every class of society, and the system of Cheques has largely superseded the usefulness of

Bank Notes. The advantage of cheques over bank notes is undoubted, and there are but few who would care to return to the old system.

Prior to the establishment of the Bank of England there were many Private Bankers, of whom Messrs. Child & Co. and Messrs. Hoare may be mentioned as the longest established and most important.

In the Provinces large numbers of comparatively small private Banks having less than six partners were formed after the monopoly of Joint Stock Banking had been granted to the Bank of England. Many of these came into existence through the gradual evolution of country shopkeepers into bankers, one of the most notable examples being the firm of Messrs. Smith Payne and Smith, now amalgamated with the Union Bank of London. Some of these country Banks were admirably managed, and but for amalgamation with large Joint Stock Banks would have successfully continued to the present day. The larger number, however, were swamped by the periodical crises, and failed with heavy liabilities.

In the year 1833, after the renewal of the Charter of the Bank of England for ten years the Directors decided upon a definite course of action to guide them in their future operations, which was that at least one-third of their liabilities should be retained in Cash and Bullion, and the balance in first-class securities. These principles were thoroughly sound, and should have been acted upon throughout, but owing to the curious position in which the Bank of England stood in relation to the State, and taking into consideration the fact that it derived its special privileges solely through this connection with the State, it is not surprising that the Directors allowed their desire to accommodate the Government to override their discretion, and consequently on many occasions the proportion of

Cash and Bullion fell to a very much lower level than the proposed ratio.

In the year 1839, the Securities stood at nearly £29,000,000, whereas the Cash and Bullion was reduced to less than £3,000,000. This state of affairs necessitated large borrowings in Paris and Hamburg. The weakness of the Bank's position was fully recognised by the Government, and in the year 1844 an Act was brought in to place the Bank on a more solid foundation, and to regulate the issue of Bank Notes by the Provincial Banks throughout the country.

Banking and tho Bank of England.

Banking may be defined as the profession of dealing in money, and is founded on the principle that although a vast proportion of the amounts deposited are repayable on demand and without any notice whatsoever, yet a Bank will never be called upon at any one moment to pay out the whole of its liabilities. This fact alone enables Banking to be carried on at a profit; and as soon as a Banker is in a position to know approximately what percentage of cash to liabilities it is essential for him to keep on the premises, and at the Bank of England, to meet current demands, and at the same time to leave an ample margin for unknown contingencies, his next consideration is how to use the balance profitably.

(a) How the Banker obtains his Funds.—

The Banker obtains his money from a variety of sources, viz.:—

(1) *The Paid-up Capital:—*

This is received from persons who subscribe for the shares of the Bank.

It is interesting to know that the Bank of England alone of all the Joint Stock Companies has no Uncalled Capital. This, in the case of other Banks, is of considerable importance, as it forms an additional security to the depositors. It should be noted that in certain cases the Shareholders cannot be called upon for this money unless the Bank goes into liquidation.

(2) *Deposits at Interest:—*

Bankers receive large amounts from customers who, though forced by circumstances to keep money in readiness to meet known or unknown demands, yet desire to see some return upon the same in the meanwhile. These Deposits are usually made subject to definite notice of withdrawal, and the rate of interest given varies according to the length of this notice. In the case of Deposits at seven days, the usual rate of interest is 1½ per cent. below the official Bank Rate, special arrangements being made as regards Deposits at greater rests. The value to the Banker of the money so deposited is always greater than the interest given by him therefor, and in consequence this source of revenue is very valuable.

(3) *Current Accounts:—*

By far the larger proportion of the amounts deposited are credited to Current Accounts, and for these the Banker pays little or no interest whatsoever. The Banker, on the other hand, uses this money continually, and thus is enabled to make large profits at practically no cost to himself.

(4) *Bank Notes:—*

There still remain a few Banks who enjoy the right of issuing Notes, besides the Bank of England. Where these Notes are issued against coin or bullion it follows that the Bank in question makes no profit out of the transaction, but, on the contrary, sustains a loss to the extent of the cost of the

Note itself and the precautions necessary to guard the gold. On the other hand, where Notes are issued against Securities, the Banker obtains the use of the money as well as enjoying the interest from the Securities, and thus makes a double profit. In the case of the Bank of England, the issue of Notes against Securities is limited by law at a fixed amount, but this is not exactly the case with other Banks. The right of issue in these cases is based upon the average amount of the issues of Bank Notes for the twelve weeks preceding the 27th April 1844, and it was provided that no Banker should in future exceed on an average of four weeks the amount of this average of twelve weeks, under a penalty of forfeiting an amount equal to the excess.

(5) *Bankers' Drafts:*—

These are ordinary Bills of Exchange, usually drawn by one Banker on another. They are used extensively, especially in the country, by persons who have either no Banking Account or who wish to remit money abroad. The country Banker usually draws on his London agent, and charges no commission unless the Bills are on demand or at sight.

These drafts form an important element in banking, as the Banker receives the money over the counter and makes his profit either from the use of the money for the specified number of days or in respect of the commission charged.

Bankers' Drafts are often used by travellers in much the same way as Letters of Credit.

The above are the more important sources from which a Banker obtains his money, and it is now necessary to consider what use he makes of it.

(*b*) How the Banker uses his Funds.—

A Banker employs the bulk of the money deposited with him profitably, but not the whole thereof.

(1) NON-PROFITABLE:

(*a*) A Banker is obliged to invest a considerable sum in Buildings, Leases, Office Furniture, and Effects. This class of asset, being unproductive and unavailable in times of pressure, is usually written down in the books out of Revenue to a figure largely below its real value. It is interesting to note that the Bank of England apparently takes no account whatever of the value of its premises, although the Head Office Buildings in London stand on the most valuable site in the world.

(*b*) Joint Stock Bankers are forced to keep a certain amount of Cash in Hand and at the Bank of England to meet current demands. To a large extent these demands are known and recurrent, and in consequence cause little or no disturbance in the Money Market. The balance at the Bank of England, upon which no interest whatsoever is allowed, serves a double purpose—

(1) Under the Clearing House rules it is imperative for each Banker therein represented to keep at the Bank of England an account to which the balance of the daily settlements of the Clearing House may be debited or credited, as the case may be. It is impossible to over-estimate the facilities afforded to Bankers by the Clearing House.

(2) The Bank of England makes very large profits from the use of the Bankers' Balances, and consequently the Bankers themselves feel that they have very sound claims upon the Bank of England for assistance in times of financial pressure. It may be mentioned in this connection that the Bank of England has never yet failed to respond in proper cases.

(2) PROFITABLE:

(*a*) *Investments.*—A very large proportion of Bankers' Investments are gilt-edged, and are depreciated in the books to a value considerably below the normal market price. Both the holding of this class of security, and the under valuation thereof in the books, are vital factors of importance in the administration of a great Bank. In times of panic only the highest class of investment is readily negotiable, and as the very existence of a Bank depends upon being able at all times to meet the demands made upon it, it is all important to have a large reserve of first-class securities. As to the valuation of these, it follows that if in times of pressure they will be immediately used as a means of raising ready cash, the market value of the same will rise or fall in value according to the state of the Money Market. Any sudden demand, therefore, is likely to adversely affect the current quotations, and if the Bank was not forearmed the loss arising through a forced sale would fall wholly upon the period in which the crisis took place. This might upset the confidence of the public in the particular Bank, and materially damage, if not ruin, its credit.

(*b*) *Bills of Exchange.*—Not only do Bankers discount Bills of Exchange for the convenience of their customers, but they also buy large numbers of first-class Bills from the Bill Brokers. This forms a most useful and profitable outlet to the Banker for his superfluous funds. In his transactions with the Bill Brokers he has the advantage of their experience in choosing the Bills, and he has their personal guarantee; he is able to regulate his cash reserves to suit his own convenience by stipulating for Bills which mature within a specified number of days; he makes a quick profit and the security is good. The advantage of dealing with the Bill Brokers is apparent, especially when it is remembered that a

Banker cannot know from day to day what Bills he may be asked to discount by his regular customers.

In considering the profit which a Banker makes on discounting Bills, it should not be forgotten that he charges interest on the nominal value of the Bill and not on the money advanced. Thus the real interest charged is at a higher rate than would appear from the discount quotation.

(*c*) *Loans and Advances.*—The Banker usually invests over 50 per cent. of his assets in Loans and Advances against security. A considerable proportion of this is repayable on demand and at short notice, and includes *inter alia*—

(1) Advances to Bill Brokers repayable at call.
(2) Advances to Stock Brokers repayable at short notice.
(3) Loans to Customers, Insurance Companies, and Financial Houses.

A Banker has to exercise the greatest discrimination in deciding what he will accept as cover for these loans. He not only has to guard against lending too much on any one class of security, but also to avoid locking up a portion of his funds for too long a period. These Loans and Advances will appear in the Bankers' Balance Sheet under the headings of Money at Call and at Short Notice, and Advances on Current Accounts, Loans on Security, &c.

When it is considered what enormous sums are advanced by Bankers to assist commerce, it will be readily understood what an important part the Bankers play in the welfare of the community at large. It is of the utmost importance therefore that the reputation of a Bank should be high and its credit good.

The Bank of England.—

The Bank of England came into existence on the 25th April 1694. It is not, and never has been, a State Bank, although it was founded directly for the advantage of the State, and received

whatever benefits it enjoys or has enjoyed at the hands of the State. It merely acts as the State Banker, and in that capacity it calls for and receives a limited amount of State protection.

The Bank of England is the strong room of the British Banks, and the custodian of the nation's gold reserve. As has already been explained, nearly all the Bankers keep large balances with the Bank of England, and depend entirely on the Bank of England for any extraordinary demand that may be made upon them.

Thus, when money is scarce and consequently in demand, the Public depends on the Banks, and the Banks on the Bank of England. When the Bill Brokers, Stock Brokers, and others requiring money, fail to obtain what they need from the Banks, they too fall back upon the resources of the Bank of England; consequently the whole Money Market moves round the Bank of England, and stakes its very existence on her power to satisfy the nation's requirements.

Management.—

The Bank of England is managed by a Governor, Sub-Governor, and twenty-four Directors. They meet every Thursday and fix the Bank Rate, thus in effect giving a basis for determining the current value of money for the time being.

They also consider the Weekly Return, and this is published immediately after the close of the meeting.

State Protection.—

It has been shown that the extensive privileges formerly granted to the Bank of England were from time to time gradually curtailed. There still remain traces of State protection, however, chiefly in the matter of the note issue, viz.:—

(1) The Bank of England holds the monopoly of issuing notes within sixty-five miles of London, and will eventually have the monopoly of all England. This was clearly the intention of the Act of 1844. The monopoly is valuable from the point of view of prestige, and profitable to the extent to which notes are issued against securities.

(2) The enactment making Bank of England Notes legal tender created a permanent demand, not so much by the Public as by the Bankers. It is clearly more convenient for the latter to keep a part of their Cash in Hand in the form of Notes, rather than being obliged to keep the whole of it in coin.

(3) The State supplies a military guard every night to protect her own deposits, and incidentally the property of the Bank.

The Duties carried out by the Bank of England for the Government.—

The Bank of England in its capacity of State Banker receives the National Revenue, and meets the National Expenditure. It issues Exchequer Bills for the Government; any State Loans which may be brought out; manages the Consolidated Debt; and generally advises the Government in all financial matters.

Duties carried out by the Bank of England for the Nation.—

The Bank of England maintains the gold reserve of the country by means of the Bank Rate. It maintains the National currency by the withdrawal of defective coins; and it maintains the commercial credit of the country by lending its support to the Money Market in times of financial pressure.

The Bank Act 1844.—

The Act of 1844 is one of the most notable Acts of Parliament that has ever been passed. It was framed by Sir Robert

Peel, but to a very large extent the credit of its success is due to Lord Overstone, who advised Sir Robert Peel throughout, and who was at that time the greatest authority on Banking in the country. The Act is particularly interesting, inasmuch as it still remains in force, despite the fact that the whole character of Banking has changed.

In the year 1844, it was considered well nigh impossible to carry on Banking successfully without a note issue. At the present time Cheques have almost ~~entirely~~ superseded Bank Notes in settling commercial transactions, and Deposit Banking has reached gigantic proportions. It is estimated that the Bankers of Great Britain hold deposits to the extent of over £800,000,000, a fact which alone proves how greatly the stability of the Banks is bound up with the interests of the nation.

The Bank Act, 1844, would have been obsolete years ago, however, had it not been for the Bank of England's self-imposed duty of maintaining the gold reserve of the country, and also for the indemnity granted by the various Governments against the illegal expansion of the Note Issue on those occasions when that course became imperative owing to financial crises. The Act of 1844 made no provision whatever for an expansion of the Note Issue in times of pressure, and it has been necessary to break the law in this respect on three separate occasions.

Suspension of the Bank Act, 1844.—

(1) In the year 1847 a serious financial crisis arose through speculation in railway undertakings. Parliament was called upon to give sanction to the formation of a large number of railways and similar schemes involving considerable capital. The price of the shares rose in the Market, and great speculation ensued. A bad harvest and potato crop caused heavy imports of corn, and the consequent export of gold. The result was that financial

panic ensued, and the reserve at the Bank of England fell to under two millions. The Bank Act was suspended, and the issue of notes against securities permitted to an unlimited extent. This quickly restored public confidence, although advantage was not actually taken by the Bank of the additional powers temporarily given.

(2) In the year 1857 America was in considerable financial difficulty, and many of the large Banks had stopped payment. A continual drain of gold from this country ensued, with the result that credit was largely curtailed. Heavy failures took place amongst Banks and Financial Houses, including one of the largest Discount Houses in London. The trouble was in a certain measure accentuated by financial disturbance in Scotland and Ireland, and, added to this, the Bank of England had allowed the reserve to fall to a dangerously low point. It was found necessary to apply to the Government for powers to suspend the Bank Act, and full advantage was taken thereof. During the whole of the crisis the Bank Rate remained at the abnormally high rate of 10 per cent., but even this remedy failed for a long time to attract sufficient gold to restore public confidence.

(3) In the year 1866 the Civil War in America caused a shortage in the cotton supply, which necessitated large purchases at high prices from other parts of the world. The Bank Rate was raised to 8 per cent., and credit was everywhere curtailed. Everybody tried to sell their securities, but nobody was ready to buy them; and this resulted in the failure of several large financial houses, the most important being that of Messrs. Overend Gurney & Co., who failed with liabilities of over ten millions sterling. The failure of this house was reported on Friday, the 11th May 1866, which has since been

known as Black Friday. Several Banks suspended payment, and, although most of them subsequently resumed business, for the time being the panic was intense.

Chief Provisions of the Bank Act, 1844.—

The chief provisions of the Bank Act, 1844, are as follows:—

(1) The separation of the Issue Department from the ordinary Banking Department of the Bank of England.

(2) The transfer from the Banking Department to the Issue Department of the Government debt, amounting to £11,015,100, together with other securities to the value of £2,984,900, in all £14,000,000; also sufficient Gold Coin and Bullion to make the whole amount equal to the nominal value of the notes outstanding.

(3) The fixing of the proportion of Silver Bullion which might be held by the Issue Department to an amount not exceeding one-fourth part of the gold held. It may be mentioned that the Issue Department of the Bank of England keeps no Silver Bullion at the present time.

(4) The fixing of the value of gold of regulation fineness at £3 17s. 9d. per standard ounce, and providing that any person might demand notes in exchange for gold at that rate.

(5) Providing that when any Note Issue was relinquished the Issue Department should be allowed to increase its own issue of notes against securities to the extent of two-thirds of the issue so relinquished. All the profits, however, on such increased issue were to belong to the Government.

(6) Enabling existing Banks of Issue to continue issuing their own Notes, but preventing any lapsed issue from being resuscitated.

(7) Providing for the weekly publication of a statement by the Bank of England showing the position of both the Issue and Banking Departments in prescribed form.

(8) Granting power to Banks consisting of more than six partners within sixty-five miles of London to draw, accept, or endorse Bills of Exchange not being payable on demand.

The Bank of England Weekly Return.

The Bank Return is a Statement of Account issued weekly by the Bank of England in accordance with the provisions of the Bank Act, 1844.

It is divided into two sections, one relating to the Issue Department and the other to the Banking Department.

The Return is regularly made the subject of considerable criticism in the newspapers, but in normal times it is taken by the public very much as a matter of course. As soon, however, as the least pressure is felt in the Money Market, the Bank Return is regarded as of vital importance, and the financial world eagerly analyses the figures in order to obtain a clear understanding of the position, knowing that in case of financial crisis everything will turn on the resources of the Bank of England.

The following is a copy of the Return as issued on Thursday, 20th August 1908, the Bank Rate then standing at 2½ per cent.:—

BANK OF ENGLAND RETURN.

ISSUE DEPARTMENT.

	£		£
Notes Issued	55,155,670	Government Debt ..	11,015,100
		Other Securities ..	7,434,900
		Gold Coin and Bullion	36,705,670
	£55,155,670		£55,155,670

BANKING DEPARTMENT.

	£		£
Proprietors' Capital ..	14,553,000	Government Securities	15,532,293
Rest	3,480,866	Other Securities ..	27,660,545
Public Deposits ..	8,089,562	Notes	26,051,680
Other Deposits ..	44,655,858	Gold and Silver Coin	1,581,579
Seven Day and other Bills	46,811		
	£70,826,097		£70,826,097

(a) Issue Department.—

Government Debt and Other Securities.—Turning to the Issue Department, it will be seen that the first item on the Assets side is the Government Debt, amounting to £11,015,100. This item, together with Other Securities amounting to £2,984,900, altogether equalling £14,000,000, were transferred to the Issue Department in compliance with the provisions contained in the Act of 1844. The Bank of England are allowed to issue notes against these securities, and enjoy the profits arising thereunder. It will be noted, however, in the Return that the Other Securities have increased since the year 1844 to £7,434,900. The difference, amounting to £4,450,000, is caused by the lapsing of Country Bank Issues, and the profit derived from the issue of notes against securities to this amount is handed over to the State, according to the provisions of the 1844 Act.

Gold Coin and Bullion.—The Gold Coin and Bullion varies with the Notes issued. The Bank is obliged to issue notes for gold, including bullion, at the rate of £3 17s. 9d. per ounce of standard fineness, and in the same way is compelled to pay out gold in exchange for notes presented for payment. This item clearly proves that all notes, except those issued under legal statute against securities, are represented by gold. It will be noted that silver bullion is not kept by the Issue Department, although the Bank has power to do so up to the extent of

one-fourth of the gold held; the reason being that, notwithstanding this power, silver is not legal tender for Bank Notes.

Notes Issued.—It will be seen that Notes have been issued to the value of £55,155,670. This figure includes £26,051,680 Notes held by the Banking Department, and therefore to arrive at the Active Circulation it is necessary to deduct the one from the other. Thus, the Active Circulation on the 20th August 1908 amounted to £29,103,990.

Comparing this figure with the Active Circulation according to the first Return issued by the Bank of England dated the 7th September 1844, it is found that the increase is only £8,927,720. At first this seems remarkable considering the enormous development in Banking during the last fifty years. The explanation rests in the fact that Cheques, as previously explained, have in a large measure nullified the use of Bank Notes.

(*b*) Banking Department.—

Proprietors' Capital.—Dealing with the liabilities as shown by the Return of the Banking Department, the first item shows the Capital of the Bank, amounting to over fourteen and a-half millions. It will be observed that this figure is very much larger than that of any of the great Joint Stock Banks; in fact, it is the largest paid-up capital of any Bank in the world. It rose to this figure chiefly through periodical loans to the Government, but partly through the capitalisation of profits. It forms a source of great strength to the Bank, but nevertheless prevents them competing with the larger Joint Stock Banks in the matter of dividend. The average dividend of the Bank of England is 9½ per cent. per annum, and this rate absorbs more than £1,300,000 profit per annum. The market quotations for £100 Bank of England Stock have fluctuated during the ten years ending 1907 between 255 and 367.

Rest.—The Rest represents the balance of undistributed profits, and varies from time to time, although it is never allowed to be reduced under £3,000,000. It forms to a large extent the Reserve of the Bank, but the balances of the nominal accounts not falling under any of the other headings in the Return are included in this figure.

Public Deposits.—It has already been explained that the Bank of England receives the National Revenue and meets the National Expenditure. The item of Public Deposits, therefore, includes the balances standing to the credit of the Savings Banks, the Commissioners of the National Debt, the various Dividend Accounts, the Exchequer, and the India Council. The amount varies very considerably from time to time, and towards the end of each fiscal year reaches very large proportions. As soon as the State commences to liquidate its various liabilities the balance to the credit of this account gradually diminishes. Thus to a large extent the cause of the rise and fall of the amount standing to the credit of the Public Deposits is known.

Other Deposits.—A very large proportion of the balance standing to the credit of Other Deposits represents the balances kept at the Bank of England by the various Joint Stock and Private Banks. The amount of these balances used formerly to be shown in the Return separated from the Deposits of the ordinary customers of the Bank, but this was altered in the year 1877. It is highly probable that the total amount of the Bankers' Balances often exceeds the Notes and Coin held in the Banking Department, and this is possibly the reason why separate publication ceased. The total of the Other Deposits varies almost directly with the supply of money in the Market. When money is cheap the Other Deposits usually rise in amount, and when money is scarce the reverse usually happens. In times of financial pressure this is not always the case, as the Bankers will naturally endeavour to strengthen their

cash resources, and will thus accumulate larger balances with the Bank of England.

A decrease in the "*Notes issued*" adversely affects the "*Other Deposits.*" As an illustration of this, A. wishes to export gold to the extent of £30,000. To obtain the money he goes to his Banker, who gives him Bank Notes. A. will thereupon proceed to the Issue Department of the Bank of England, and obtains the necessary gold. The Banker who supplied A. with the Notes will find his cash in hand depleted to that extent, which may be inconvenient for his purposes. He will therefore withdraw a corresponding amount from his account at the Bank of England, thus reducing the Other Deposits. It can be said, therefore, that a withdrawal of gold from the Issue Department directly affects the reserve in the Banking Department.

Seven Day and Other Bills.—The Seven Day Bills, known as Bank Post Bills, have been largely robbed of their usefulness by the introduction of the cheque system. They were originally introduced in order to give additional security to travellers in times when the country was in no settled state.

Turning to the Assets side of the Banking Department:—

Government Securities.—All the great Banks invest a large percentage of their assets in Government Securities, and the Bank of England is no exception to the rule. Included under this heading are all Stocks and Debts (other than those earmarked for the Issue Department) guaranteed by the Government; including the Deficiency Bills, on the security of which the Bank of England from time to time advances money to the Government. These Bills are issued to enable the Government to meet their obligations at times when there is little revenue coming in, and to apportion the national revenue more equally over the year.

Other Securities.—The Bank of England affords no information regarding this item, but it includes, besides other investments, advances to Stock Brokers, Bill Brokers, Insurance Companies, and the like.

Notes, Gold and Silver Coin.—The total of the Notes and the Coin held by the Bank of England represents what is known as the Reserve. Very great importance is attached to the Reserve, especially to the percentage which it bears to the Deposits. The Reserve of the Bank of England in reality represents the Reserve of the nation, and in times of financial crisis the credit of the country rests almost wholly on the power of the Bank of England to maintain the Reserve. The percentage of the Reserve to Deposits usually averages from 45 to 50 per cent., whereas in the case of Joint Stock Banks the average is about 15 per cent. The necessity for the comparatively stronger position of the Bank of England is apparent when it is remembered that all extraordinary demands made on the other Bankers ultimately reflect on the cash resources of the Bank of England.

Any large withdrawal of gold either from the Issue Department or the Banking Department will lower this percentage, and as soon as the position indicates the least danger the Bank of England adopts measures to attract gold from other sources. The danger of financial crises arises owing to the vast superstructure of credit incident to trade speculation. Nearly all the deposits with the Banks are repayable on demand in legal tender, and the medium for this is wholly inadequate as soon as there is the least restriction placed upon credit. This is particularly noticeable in times of panic. The available legal tender of the country is estimated roughly at about £110,000,000, whereas the deposits held by the bankers are roughly estimated at £800,000,000.

A financial crisis brought about by over-speculation, even in foreign countries, will accentuate the danger of a depletion in

the stock of gold at the Bank of England. The recent American crisis is an instance in point; and if any important financial house suspends payment, or fails at such a time, the results may be disastrous. Credit is everywhere restricted; and as all surplus funds are deposited with the Bank of England, the Bank of England becomes the only lender. This materially decreases the legal tender in the Banking Department, and the Bank is in consequence compelled to use extraordinary means to obtain gold from every available source. The Bank of England cannot cease to lend at such times, notwithstanding the reduction in the reserve, as to do so would inevitably destroy some important fabric of credit. Where sufficient gold cannot be attracted into the country by any means, the only safety valve which remains is the expansion of the note issue against securities in contravention of the Bank Act. This can only be done under the authority of the First Lord of the Treasury and of the Chancellor of the Exchequer, who guarantee to the Bank of England Parliamentary indemnity for the breach of law.

It is interesting to note that times of crises are particularly profitable to the Bank of England owing to the high Bank Rate; but it almost invariably happens that as soon as financial pressure is relieved a stagnation in trade follows, causing an abundant supply of money in the Market, with correspondingly low discount and interest rates.

The Bank Rate.

The Bank Rate may be defined as the Official Minimum Rate charged for the time being by the Bank of England for discounting first-class Bills and for granting Loans for short periods on approved security.

It is fixed in the ordinary course every Thursday morning by the Directors of the Bank of England, who take into account the supply of, and demand for, gold in the country, and also

the general conditions of the Money Market at home and abroad.

It must not be supposed, however, that the Bank Rate is the lowest rate at which Bills can be discounted or Short Loans obtained on any particular day. Competition amongst the various Bankers to lay out their surplus funds profitably creates a Market Rate which is usually somewhat lower than the Bank Rate. In normal times even the Bank of England will make advances to regular customers at "Market Rates."

The Market Rate generally varies directly with the Bank Rate, and the Bank Rate with the Market Rate: so that when the Bank Rate goes up the Market Rate usually follows suit. If it does not, the Bank of England may consider it necessary to take steps to compel the Market to advance its rate, especially if the Gold position is unsatisfactory; and the usual method of doing this is for the Bank to sell Consols for Cash and buy for the Account. This operation reduces for the time being the available funds with the bankers, and compels them to charge more for loans. As the resources of the Bankers decrease, so the Market Rate advances, the demand for money being greater than the supply.

Thus a point is reached when the Bill Brokers, Stock Brokers, and others needing funds are forced to have recourse to the Bank of England, who charge the full Bank Rate. If the demand for accommodation continues to increase, the Bank Rate is advanced and borrowers are obliged to pay more for their money.

A high Bank Rate, however, tends to attract money from other countries, and as the gold comes in so the supply in the Market becomes greater. Thus matters tend to right themselves, and the Bank Rate is eventually reduced so as to keep in touch with the Market Rate. It will be seen, therefore, that the

principal factor affecting the variation of the Bank Rate is supply and demand.

The Bank Rate is usually high.—

(1) When trade is good, because at such times there will be a brisk demand for money.

(2) In times of financial crisis when credit is curtailed, and there arises an increased demand for legal tender as a means of settling commercial transactions.

(3) When the balance of indebtedness as regards other countries is against us, and exports of gold from this country are threatened or actually taking place.

The Bank Rate is usually low.—

When trade is stagnant, and the demand for money declines.

Interest allowed on Bank Deposits.—

It is important to note that the interest allowed by the Joint Stock Bankers on Deposits generally varies with the current Bank Rate. This is, again, on account of supply and demand. As demand increases so the Bank Rate advances; money becomes scarcer, and therefore more valuable; the Bankers are able to use their funds more profitably, and are therefore willing to pay more for them. The effect of the custom itself, however, certainly increases the importance of the Bank Rate, and is largely responsible for its effectiveness; since even if the Bankers decline to raise the Market Rate until compelled, their clients will require their interest raised immediately the Bank Rate advances.

The objects aimed at in the alteration of the Bank Rate from time to time may be summed up as follows:—

(1) To regulate the charge for accommodation, according to the supply of and demand for money.

(2) To restrict unnecessary borrowing in times of financial panic.

(3) To turn "Unfavourable Exchanges" into "Favourable Exchanges," thus preventing gold exports and attracting gold imports.

Foreign Exchanges.

Bills of Exchange.—

It would be clearly impossible as well as inconvenient to settle all commercial transactions in actual coin; for not only would the supply of precious metals in the world be totally inadequate to meet the requirements, but also the expense and risk attaching thereto would be such as to entirely disorganise trade. The difficulty is overcome by the use of Bills of Exchange.

It is unnecessary to discuss Inland Bills, as these are to all intents and purposes identical with Cheques, and it has already been explained how by means of the Clearing House the settlement of these is facilitated.

Foreign Bills, however, require very careful consideration, for they are used to settle International transactions.

When a Foreign Bill of Exchange is purchased the transaction resolves itself into buying for a sum of money payable in one country, the right to a certain amount of currency in another country, either immediately or at a definite future date. It has been indicated that Great Britain has commercial transactions with all foreign countries, and therefore at any given moment there are merchants in this country who owe money to merchants in foreign countries, and *vice versâ.* If the imports exactly balance the exports it is clear that the one could be set off against the other.

But even this could not be done without recourse to Bills of Exchange, as no actual connection would exist between the

various debtors and creditors. The connecting link is the Bill Broker, who by buying and selling Bills of Exchange enables such transactions to be satisfactorily settled. The simple manner by which this result is effected is admirably stated by John Stuart Mill in the following passage:—

"A merchant in England, A., has exported English com-
"modities, consigning them to his correspondent, B., in France.
"Another merchant in France, C., has exported French com-
"modities, suppose of equivalent value, to a merchant, D., in
"England. It is evidently unnecessary that B. in France should
"send money to A. in England, and that D. in England should
"send an equal sum of money to C. in France. The one debt
"may be applied to the payment of the other and the double
"cost and risk of carriage be thus saved. A. draws a bill on
"B. for the amount which B. owes to him; D. having an equal
"amount to pay in France, buys this bill from A., and sends it
"to C., who, at the expiration of the number of days which the
"bill has to run, presents it to B. for payment. Thus the debt
"due from France to England, and the debt due from England
"to France, are both paid without sending an ounce of gold or
"silver from one country to the other."

Balance of Trade and Balance of Indebtedness.—

The Imports of Great Britain invariably exceed the Exports by a very large amount, and it is necessary to briefly consider how it is possible that such a state of affairs can continue without ruining the country financially.

If the expenses of a firm continue to exceed the receipts, that firm will eventually become insolvent, and the same applies with equal force to the Nation. Great Britain is, however, perfectly solvent, and enjoys better credit than any other country in the world, and so it becomes apparent that there must exist other factors requiring consideration which help to account for the apparent discrepancy.

It appears on the surface that the Balance of Trade at any given moment is largely against Great Britain, but it should be remembered that the phrase "Balance of Trade" implies not only the net difference between Imports and Exports, but also between Services received and given. These Services are represented by Freight, Carriage, Insurance, &c., and when the extent of British Shipping and Insurance is considered, it will be seen that they form no mean item in accounting for the unfavourable balance.

The Balance of Trade, however, must not be confused with the Balance of Indebtedness, upon which the question of supply and demand actually turns.

The Balance of Indebtedness is very largely affected by the Balance of Trade; but it is also influenced by other important factors, including Foreign Capital invested in this country; English Capital invested abroad; Interest due by and to this country in respect of these International investments; money held by foreign Bankers in this country; Settlements between other countries by means of Bills on London; and various other transactions.

With regard to Settlements through London, it has already been shown that England has mutual dealings with all parts of the world, but there are foreign countries whose commercial transactions with other countries cannot be paid for by Goods or Services owing to the absence of reciprocity of trade. The settlement of these is effected therefore through England by means of Bills on London.

The following illustration gives a general idea of the methods adopted to bring about this result:—

Illustration.—

A Firm in Norway exports goods to Chili and draws on a London Agent for payment, notifying the firm in Chili thereof. The firm in Chili buys a Bill on London and remits the same to

the Agent in London, who, in due course, collects the money in respect of the Bill purchased by the Chili Merchant, and thus meets the Bill drawn on him by the Norwegian firm.

India Council Bills.—

India Council Bills afford another illustration of the usefulness of Bills of Exchange as a mode of settling international obligations.

The Indian Government has from time to time borrowed large sums of money in England, and the interest thereon is payable in London in Gold. India, however, has a silver coinage, and in consequence the taxes of the country are all payable in that metal. If, therefore, the Indian Government wished to transmit Gold to England to meet the interest on the loans, they would first have to purchase the Gold in India at the current market rate. This would involve considerable loss, and the cost of shipping and insuring the Gold would add to the expense. The difficulty is overcome by means of Council Bills.

The Secretary of State for India receives information periodically as to the state of the Exchequer in India, and invites tenders accordingly for Indian Bills payable in currency in India.

Applications for these are made by Bankers and Merchants having accounts to settle in India, and in this way the Secretary of State obtains the necessary Gold in London to meet the Interest on the loans. The Merchants make a profit by purchasing the Bills at a slight discount; and the Indian Government sustains a corresponding loss, but, at the same time, is relieved of the expense of transmitting the Gold.

The Merchants remit the Bills to their Creditors in India, who in due course present them for payment at the Exchequer; the Bank of England pays the Interest on the loans, and thus the matter is satisfactorily settled without any gold passing between the two countries.

Mint Par.—

If the supply and demand for Foreign Bills were equal as between two countries, and there existed no other disturbing factors, the exchanges would presumably stand at par.

There is, however, no *actual* Par of Exchange between two countries using different coinage systems, and therefore it becomes necessary to establish a theoretical substitute, and this is known as the Mint Par.

This is simply a conversion of the terms of the Standard coinage of one country into the terms of the Standard coinage of another, having regard to the weight and fineness of the metal contained in each.

The relative value of English and French money, for instance, depends on the composition of the gold coinage of each. In England 480 troy ozs. of Gold, 11 parts fine, 1 part alloy, are coined into 1,869 sovereigns. In France 1,000 grammes of Gold, 9 parts fine, 1 part alloy, are coined into 155 Napoleons.

A Napoleon being equal to 20 francs, and one troy oz. being equal to 31.1035 grammes, it can be easily calculated by Chain Rule how many francs are equal to one sovereign at Mint Par.

CHAIN RULE.

x Francs	= 1 Sovereign.
1,869 Sovereigns	= 480 oz. Gold, English Coinage Standard.
1 oz. Gold, English Coinage Standard	= $\frac{11}{12}$ oz. Pure Gold.
$\frac{9}{10}$ oz. Pure Gold	= 1 oz. Gold, French Coinage Standard.
1 oz. Gold, French Coinage Standard	= 31.1035 grammes.
1,000 grammes	= 155 Napoleons.
1 Napoleon	= 20 Francs.

Thus— $$\frac{480 \times \frac{11}{12} \times 31\cdot1035 \times 155 \times 20}{1869 \times \frac{9}{10} \times 1000} = 25.221$$

The Mint Par between England and France is therefore 25.22 francs to £1; signifying that, all other things being equal, one full weighted English sovereign is the equivalent of 25.22 francs in full weighted French Gold coinage.

Specie Point.—

Specie Point is the term applied to a point above or below Mint Par in the Exchange rate with any country, at which it is more advantageous to settle a debt by remitting gold than by the purchase of a Bill of Exchange.

The price charged for a Bill of Exchange on any country will vary directly with the supply and demand. If the supply is insufficient to meet the demand the cost of those available will tend to increase, and the Exchange will in consequence drop. The lower the Exchange quotation falls, the smaller will be the amount of the currency of the country concerned which can be obtained for £1. It follows therefore that when the Exchange quotation reaches a certain point it will be cheaper to remit Gold, in spite of the cost of carriage and insurance, than to purchase a Bill of Exchange. This point is known as the *Export Gold Point.*

Conversely, when the supply of Bills on any country exceeds the demand the rate of Exchange will tend to advance. This is to the advantage of the English Creditors who have accounts to settle with the country in question, for they can control a greater amount of currency for every sovereign expended. On the other hand, a high rate indicates a loss to the Foreign Debtor, who has to pay a greater amount of currency for every sovereign purchased, and consequently a point is reached when it is more profitable for him to remit gold than to purchase a Bill of Exchange. This point is known as the *Import Gold Point.*

The Specie Points in the Exchange with France are as follows:—

Mint Par	... ...	25.221
Export Gold Point	...	25.125
Import Gold Point	...	25.325

Assuming the charges of remitting Bullion to Paris to be equal to ⅜ per cent. of the value thereof, it would be cheaper for an English Debtor to forward Gold rather than to purchase a Bill of Exchange on Paris at the Export Gold Point of Exchange.

Illustration.—

252,210 Francs could be settled for £10,000 + ⅜ per cent. thereof = £37 10s.	£10,037	10	0
Whereas a Bill of Exchange on Paris for 252,210 Francs at Exchange 25.125 would cost	£10,038	4	2

The Import Gold Point renders it in like manner to the advantage of the Foreign Debtor to send Gold rather than to purchase a Bill of Exchange on London.

High Rates of Exchange are said to be advantageous to this country, as they generally indicate a favourable balance of indebtedness; they tend to attract an inflow of Gold, and they enable more currency to be purchased for a sovereign.

Low Rates of Exchange are said to be unfavourable to this country for converse reasons.

The Bank Rate in connection with the Exchanges.—

When the Export Gold Point is reached it is certain that Gold will leave this country, for two reasons—

(1) Because it becomes cheaper to remit Gold than to purchase Bills.

(2) Because the State Banks of the principal Continental countries grant special facilities to Gold Importers

If the Exchanges set unfavourably against England, a heavy drain of Gold will naturally result, and it becomes necessary to adopt measures such as are likely to prevent the Reserve of Gold from being dangerously reduced. This is brought about by an increase in the Bank Rate of the Bank of England. An advance in the Bank Rate does not necessarily depend upon the Foreign Exchange quotations only; as the Bank of England must clearly take into consideration the Gold Reserve, and the monetary conditions generally. The fact remains, however, that the true correction of adverse Exchanges lies in an increase in the Bank Rate.

If the Discount and Interest Rates ruling in London are higher than those ruling in other cities, Capital will be sent to London, in order that the greatest return possible can be obtained for its employment.

The Foreign Banks will buy up the available Bills on London at the low rate of Exchange ruling abroad, and will either hold them till maturity, or sell them before maturity as the rate goes up.

Foreign Banks with Branches in London will also employ more Capital in England, and this will be used in the discounting of first-class English Bills at the high rate of discount ruling in London.

The Capital so invested will be obtained by drafts on Continental Banks, which will be sold in the London Market.

Thus Bills on London in Foreign Countries will tend to become more scarce, and Bills on Foreign Countries in London will tend to become more plentiful; the result being that the price in London for a Bill on a country concerned in these operations will become cheaper and the Exchange quotation will gradually rise. In any case the Export of Gold will be stopped;

and the continuance of a high Bank Rate may attract such an inflow of Gold as to alter the whole complexion of the Foreign Exchanges.

Arbitrage Operations.—

Arbitrage Operations are those which have for their object:—

(1) The acquisition of profit by taking advantage of the difference between the Exchange Quotations in each of two countries.

Illustration.—

Assuming London quoted Paris at 25.22 and Paris quoted London at 25.24, an Arbitrage Operator could sell a £1,500 Bill on London in Paris for 37,860 francs, by telegraphing to his agent in Paris instructing him to draw on him for that amount; and at the same time he could sell a 37,830 francs Bill on Paris in London for £1,500. His Arbitrage Account in London would exactly balance, for it would be credited with the proceeds of the sale of the Bill on Paris, and it would be debited with the cost of meeting the Bill on London.

On the other hand, his Arbitrage Account in Paris would show a profit of thirty francs, for it would be credited with the proceeds of the sale of the London Bill, viz., 37,860 francs, and it would be debited with the Bill on Paris for 37,830 francs.

An operation of this kind seldom takes place, as differences between the rates as quoted by each of two countries are generally corrected before any such advantage can be taken.

(2) Minimising losses by remitting an amount abroad by means of a Bill of Exchange drawn on a third country.

Illustration.—

Assuming a London Merchant has to remit 10,000 francs to his agent in Paris, and the following rates of Exchange are current:—

The price in *London* of a Bill on Paris is ..	25·18 francs to £1.
The price in *London* of a Bill on Amsterdam is	12 florins to £1.
The price in *Paris* of a Bill on Amsterdam is..	100 florins to 210 francs.

The Arbitrated Exchange in London on Paris through Amsterdam is:—

$$\begin{aligned} x \text{ francs} &= £1 \text{ sterling.} \\ £1 \text{ sterling} &= 12 \text{ florins.} \\ 100 \text{ florins} &= 210 \text{ francs.} \\ \frac{12 \times 210}{100} &= 25{\cdot}20 \text{ ,,} \end{aligned}$$

It is therefore cheaper for the London Merchant to remit to his agent in Paris a Bill on Amsterdam, which that agent can sell in Paris at the ruling rate of Exchange, than to purchase a Bill on Paris in London. In the former case he obtains the right to 25.20 francs for every sovereign, whereas in the latter case he obtains the right to 25.18 francs only.

The cost of each method would be as follows:—

		£	s	d
(1) *Bill on Paris*—				
10,000 francs @ 25·18	=	397	2	9
(2) *Bill on Amsterdam*—				
4,762 florins = 10,000 francs (approximately)				
@ 12 florins to £1	=	396	16	6
Gain to merchant by remitting through Amsterdam		0	6	3

Operations of this kind have the effect of averaging the rates almost immediately; and great skill is essential to take advantage of differences in the rates under such circumstances as those given.

Course of Exchange.—

A Course of Exchange is a statement of an official character issued to show the prices, at a particular date, of Bills of Exchange, on places mentioned in that statement.

It is issued on Tuesdays and Thursdays in each week by the Bill Brokers after they have closed their market at the Royal Exchange.

The following is a Course of Exchange taken from *The Times* of Friday, 14th August 1908:—

COURSE OF EXCHANGE.

THURSDAY 13TH AUGUST 1908.

Place	Term of Bill	Price	
Amsterdam, &c.	Cheques	12 $1\frac{1}{2}$	12 $1\frac{3}{4}$
Do.	3 Months	12 $3\frac{1}{2}$	12 4
Antwerp and Brussels ..	,,	25 $33\frac{3}{4}$	25 $38\frac{3}{4}$
Hamburg	,,	20 56	20 60
Berlin, &c.	,,	20 56	20 60
Paris	Cheques	25 $13\frac{3}{4}$	25 $16\frac{1}{4}$
Do.	3 Months	25 $23\frac{3}{4}$	25 $28\frac{3}{4}$
Marseilles	,,	25 $23\frac{3}{4}$	25 $28\frac{3}{4}$
Switzerland	,,	25 $33\frac{3}{4}$	25 $38\frac{3}{4}$
Austria	,,	24 20	24 24
St. Petersburg and Moscow	,,	$24\frac{3}{4}$	$24\frac{7}{8}$
Genoa, &c.	,,	25 $36\frac{1}{4}$	25 $41\frac{1}{4}$
Madrid, &c.	,,	$41\frac{7}{8}$	$42\frac{1}{8}$
Lisbon	,,	$45\frac{7}{8}$	$46\frac{1}{8}$
Oporto..	,,	$45\frac{7}{8}$	$46\frac{1}{8}$
Copenhagen	,,	18 38	18 42
Christiania	,,	18 38	18 42
Stockholm	,,	18 38	18 42

It will be observed that there are two prices against each centre in the Course of Exchange. This does not represent the

difference between buying and selling Bills as might be supposed, the explanation being as follows:—

Long Rate.—

Where the Long Rate is quoted (*i.e.*, Bills having three months to run) the lower rate represents Bank Bills whereas the higher rate represents Trade Bills.

It is clear that Bank Bills afford a greater feeling of security than even the highest class of Trade Bills, and consequently the rate of discounting the former will be less and the cost of purchasing greater than in the case of Trade Bills.

In the above Course of Exchange a three months Bill on Paris is quoted 25.23¾, 25.28¾.

This means that £1 will buy a three months Bank Bill on Paris of F.25.23¾; whereas £1 will buy a three months Trade Bill on Paris of F.25.28¾.

Short Rate.—

Where the Short Rate is quoted (*i.e.*, rates quoted "Cheques," "Demand," or "Sight") the explanation of the two prices is somewhat different.

The phrase Demand Bills includes all those having not more than ten days to run.

Thus in the Course of Exchange given, £1 will buy a Demand Bill on Paris, payable immediately, of F.25.13¾; whereas £1 will buy a Demand Bill, having ten days to run, of F.25.16¼.

It will be observed that the Long Rate only is quoted, except in the case of Amsterdam and Paris.

The London Exchange does not give quotations at the Short Rate on the remaining entries, but most of the Continental Cities give quotations on London at Sight Rates, and these are telegraphed over, and appear in the financial papers.

The following is a list taken from *The Times* of 14th August 1908:—

FOREIGN EXCHANGES.

AUGUST 13 1908.

Place	Particulars	Price
Paris	Cheques	25 F. 14½—25 F. 15½
,, ...	Bank Rate	3%
,, ...	Market Discount	1¼%
Brussels	Cheques	25 F.19½—25 F. 20½
Berlin	Sight	20 M. 39—20 M. 40
,, ...	8 Days	20 M. 39
,, ...	Bank Rate	4%
,, ...	Market Discount	2¾%
Vienna	Sight	23 Kr. 93½—23 Kr. 95½
Amsterdam	,,	12 Fl. 07½—12 Fl. 08
Italy	,,	25 Lr. 12½—25 Lr. 14½
Madrid	,,	28 Ps. 14—28 Ps. 24
Lisbon..	,,	3s. 10½d.—3s. 10¾d.

NOTE.—In the case of Lisbon, where the quotation is given in shillings and pence, the explanation is that 3s. 10½d. will purchase Sight Bill on Lisbon of 1 Milreis.

The Reconciliation of the Long and Short Rates.—

Theoretically the Short Rate of Exchange on any particular country should exactly equal the Mint Par existing between England and that country, but in practice this is seldom the case.

In the Course of Exchange given, the Short Rate on Paris for Bank Bills is 25F.137; whereas the Mint Par is 25F.221.

The variation is caused by:—

(1) Supply and Demand.

(2) Distance between the place of purchase and the place where payment can be obtained.

(3) Reputation of the parties to the Bill.

In the case of a Long Bill, the variation from Mint Par is caused by:—

(1) Supply and Demand.

(2) Distance between the place of purchase and the place where payment can be obtained.

(3) Reputation of the parties to the Bill.

(4) The Term of the Bill or the Discounting charges abroad.

(5) Other expenses and risks.

Thus in order to obtain the Short Rate where the Long Rate is given, it is necessary to deduct:—

(1) The Interest for the period at the market rate ruling in the particular country.

(2) The Cost of the Bill Stamp.

(3) Other Expenses for Time Risks, &c.

A Bill on Demand for 1,000 francs is clearly more valuable than a Bill at three months for the same amount, provided the acceptors are perfectly solvent, and consequently the rate for the Long Bill is higher.

£1 will therefore buy more currency if represented by a three months Bill than if represented by a Bill payable on Demand.

The Gold Reserves.

The Nation's Reserve of Gold is represented by the Reserve at the Bank of England, and it is amazing that the Money Market of this country should work so smoothly considering how small that Reserve really is.

All the leading nations of Europe have much larger accumulations of gold than is the case with this country, and yet England enjoys better credit than any. It is interesting to consider the causes underlying these two facts.

(a) England's small Gold Reserve.—

(1) Great Britain places no restrictions whatever on Gold Exports, and is therefore liable to continual calls from outside sources on her Gold Reserves.

(2) The development of Banking, and the consequent increase of cheques and the reduction in the active circulation of Bank Notes.

(3) The Savings Bank and Postal Order systems.

These are three of the main causes which have prevented the accumulation of large Gold Reserves in this country.

(b) England's Credit.—

(1) The International nature of Great Britain's commerce, and the gigantic proportions reached by it.

(2) The well established ability of the British Government and the leading London merchants to meet their obligations.

(3) The power of being able to attract Gold from outside sources whenever necessary.

These are three of the chief factors which help to maintain Great Britain's credit.

The Gold Reserves of this country are, however, unquestionably too low, and this is particularly apparent when it is remembered that an Export of even half a million pounds will often influence money rates.

The following table is interesting, inasmuch as it shows at a glance the Specie Reserves held by the leading nations of Europe as at the end of June 1908.

SPECIE RESERVES.

(1) Bank of England	38½	millions
(2) Bank of France	162½	,,
(3) Bank of Russia	120	,,
(4) Austro-Hungarian Bank	60	,,
(5) Bank of Germany	51½	,,
(6) Bank of Italy	40½	,,

The question as to how to materially increase the Gold Reserves of Great Britain has occupied the attention of many of the leading Bankers and Financiers, and many suggestions have been put forward with this object in view. Amongst these are:—

(1) The issue by the Bank of England of £1 notes.

(2) Increase of the Capitals of the Joint Stock Banks, and the formation of a Bankers' Special Gold Fund by means of the Gold thereby acquired.

(3) The repayment by the Government of the debt to the Issue Department of eleven millions.

(4) The maintenance by the Banks of larger balances at the Bank of England, and the maintenance of an accordingly increased reserve by the Bank of England.

(5) The accumulation of special Gold Reserves by the Bankers themselves.

(6) The granting of power to the Bank of England under statute to meet, if necessary, its Notes in silver.

These proposals, and many others, have been put forward to meet the situation, but each has been found wanting in some particular; so that the strengthening of the Gold Reserve is, despite its urgent necessity, still a problem to be solved.

The following suggestion is therefore advanced, in the hope that Professional Accountants may consider the subject with a view to finding a satisfactory solution.

A Schemo to Incroase the Gold Reserves by restriction of Bank Dividends.

(1) No Joint Stock Bank (including the Bank of England) to declare a dividend in excess of 10 per cent. per annum on its paid-up Capital until the amount standing to the credit of that Bank in the Bankers' Special Gold Reserve Account at the Bank of England shall equal 5 per cent. of the liabilities of such Bank to its depositors.

(2) The balance of Profit available for appropriation after making the usual transfers to General Reserve, and after the payment of a dividend at the rate of 10 per cent. per annum on the paid-up Capital, to be carried to the Special Gold Reserve Account.

(3) Where any Joint Stock Bank has a sum available for appropriation which will allow of the payment of a dividend of 10 per cent. only, or less, the sum so available to be divided into eleven parts, of which ten parts shall be available for Dividend, and one part shall be carried to the Special Gold Reserve Account.

(4) All sums which the Joint Stock Banks shall transfer from profits to the Special Gold Reserve Account, to be lodged in gold with the Bankers' Gold Reserve Department not later than twenty-eight days from the declaration of the dividend at the same time appropriated.

(5) Each Bank to be credited with the amount placed to the Special Gold Reserve Account, but such amount not to be capable of withdrawal by the Bank depositing it, except in the event of such Bank going into liquidation.

(6) The Bank of England to preserve a minimum ratio of Cash to Liabilities in its Banking Department of 38 per cent., without taking into consideration the Bankers' Special Gold Reserve.

(7) When the ratio of Cash to Liabilities sinks below this figure, or when the Bank Rate exceeds 7 per cent. per annum, the Bank of England to be entitled to borrow from the Special Gold Reserve Account on approved securities.

(8) Any sums borrowed from the Special Gold Reserve Account to be utilised only for the purpose of meeting the requirements of the particular Banks contributing to the Special Gold Reserve.

(9) If interest is charged to any of the Banks owing to its requirements exceeding its credit with the Banking Department of the Bank of England, such interest less one-sixth to be transferred to the Special Gold Reserve Account in cash by the Bank of England; but the Bank of England only to meet such requirements by way of overdraft and on its own discretion.

(10) The Bank of England to publish its Weekly Return in three parts, viz.:—

(1) Bankers' Special Gold Reserve Department.

(2) Issue Department.

(3) Banking Department.

(11) A Statement of the amount of the Bankers' Special Gold Reserve, showing the proportions transferred by each Bank contributing thereto, to be published on the last day of each month.

(12) Gold Reserve Trustees to be appointed, and their consent in writing to be obtained by the Bank of England before any transfer from the Reserve is made.

(13) Trustees to the Special Gold Reserve Department to certify the Monthly Statement, and also to certify the amount contributed by each Bank, to the Auditors of such Bank, as and when required.

In support of the scheme the following arguments are brought forward:—

Arguments in favour of the Scheme.—

(1) *The Reason why the State should Interfere.*—

The State considers it necessary to restrict dividends in the case of certain undertakings existing for the public benefit, on the ground that the interests of the public are of more importance than a large rate of dividend for the shareholders. In the case of Joint Stock Banks very large national interests are at stake, and it is unquestionably a fact that the failure of any one of them would bring about an immediate financial crisis, such as might shake the very foundations of the nation's credit. It is, therefore, in the interests of the country that the State should see that the Banks are in a position to meet their obligations as and when required.

The Bankers of Great Britain have liabilities to depositors amounting in total to well over 800 millions, possibly 1,000 millions. To meet this enormous liability, which is nearly all repayable on demand, the Bankers hold, on the average, a little over 15½ per cent. in cash in their tills and at the Bank of England. This percentage is apparently more than sufficient in normal times, but in times of severe financial crisis it might be found wholly inadequate.

(2) *The Restriction of Dividends will not Eventually Affect the Price of Bank Stocks.*—

The market value of stocks and shares varies principally with the rate of dividend paid and the security afforded by the undertaking. By transferring profits in excess of 10 per cent. dividend, the Bank will add materially to the soundness of its position, and the value of the shares will rise in consequence on the market. On the other hand, the diminution of the dividends will have the effect of depreciating the value of the shares, and the two things taken together should eventually balance one another. It is quite

possible that at first the reduction in dividend will affect the value of the Bank shares to a greater degree than will the additional security afforded by the retention in Gold of additional funds. This, however, should right itself in a comparatively short space of time.

(3) *The Bankers will not Lose Materially under the Scheme.*—

It is true that the Bankers will get no interest on the money lying with the Bankers' Gold Reserve Department, but this should not reduce the profits of individual Banks materially, inasmuch as they would have paid away this money in dividend under the old circumstances. Bankers collectively, however, may suffer by reason of the fact that under the old arrangement the bulk of the dividends eventually came back by way of fresh deposits, to be again profitably utilised, which would not be the case under the scheme; but even this possible loss would be compensated for by the increased earning power of money, as mentioned in Section 6 following.

(4) *The Withdrawal of Metallic Currency from Circulation.*—

The scheme will temporarily withdraw from circulation a certain amount of metallic currency, but this can in due course be replaced by Gold Bullion, the coinage being set free.

(5) *The Advisability of Accumulating Large Sums of Bullion.*—

It may be found impossible for Great Britain to accumulate such large reserves of Bullion as some of the leading European Powers have done, owing to the extended system of banking in Great Britain. This, however, is unnecessary, and what is aimed at is simply to place the Gold Reserves of the country on a more solid foundation.

(6) *A High Bank Rate Resulting from the Withdrawal of Money from Circulation.*—

The Bank Rate, though nominally the rate for money, is equally the rate for credit; and if credit is good the rate of interest should not rise abnormally. The credit of the country will be on much safer foundations if the Gold Reserves are increased. A more stable Bank Rate would probably be beneficial to the whole community; a moderately high Bank Rate will certainly benefit the Bankers; and a high Bank Rate will undoubtedly attract Gold from other sources.

(7) *The Loss to the Shareholders in Dividend.*—

It is true that at the present market rates Bank shares only yield a normal return to the shareholder, and at first sight it may seem as if the scheme will act hardly on the shareholders. It has been shown, however, that the market quotations of the Bank shares should not be materially affected, anyhow eventually, by the carrying out of the scheme, and therefore a shareholder who is unwilling to hold the shares at the smaller dividend could sell his shares with comparatively little loss. When the contribution of any particular Bank to the Bankers' Special Gold Reserve Account has reached the proper percentage, the dividend will automatically regain its old level. In the meanwhile any scheme making for the permanent safety of the Bank is undoubtedly for the benefit of the shareholders.

In considering the above scheme the following Statement, showing the position of eleven of the leading Joint Stock Banks, together with the Bank of England, as at the end of June 1908, will be found of interest.

BANK STATEMENTS, ON OR ABOUT 30TH JUNE 1908.

Name of Bank	Paid-up Capital	Deposits, Public and other	Cash in hand, including Notes	Investments, including Loans and Advances	Percentage of Cash to Deposits	Percentage of Investments to Deposits	Total Assets	Uncalled Capital
	£	£	£	£			£	£
Bank of England	14,553,000	60,845,104	27,081,128	51,579,585	44·50	84·77	78,660,713	Nil

Name of Bank	Paid-up Capital	Deposits, &c.	Cash in hand, and at Bank of England	Cash at Call and Short Notice	Advances and Loans, including Bills Discounted	Total Cash at Call and Notice, and Advances and Loans	Investments	Percentage of Cash to Deposits	Percentage of Cash at Call, and Short Notice to Deposits	Percentage of Investments to Deposits	Total Assets	Percentage of Cash at Call and Notice, & Advances & Loans to Total Assets	Uncalled Capital
	£	£	£	£	£	£	£				£		£
Barclay & Co.	3,200,000	47,019,782	7,381,725	5,138,400	27,316,882	32,455,282	10,181,315	15·69	10·92	21·65	51,375,333	63·17	4,800,000
Capital & Counties ..	1,750,000	34,984,889	5,718,111	6,293,917	19,644,911	25,938,828	5,010,804	16·34	17·99	14·32	37,664,150	68·86	7,000,000
Lloyd's ..	4,171,600	71,048,410	12,575,042	6,579,952	45,421,972	52,001,924	11,765,996	17·69	9·26	16·56	78,220,010	66·48	21,900,900
London & County ..	2,000,000	45,847,515	7,898,998	3,367,282	28,640,094	32,007,376	8,907,778	17·22	7·34	19·43	49,659,309	64·45	6,000,000
London & S. Western	1,000,000	15,083,602	2,382,671	1,573,435	8,523,464	10,096,899	4,018,402	15·79	10·43	26·63	17,213,668	58·65	1,500,000
London & Westminster	2,800,000	28,132,584	3,926,404	7,767,275	15,816,118	23,583,393	4,260,415	13·95	27·60	15·14	32,564,247	72·42	11,200,000
London City & Midland	3,142,850	53,212,535	9,897,481	7,128,001	34,850,915	41,978,916	6,707,086	18·59	13·39	12·60	59,954,596	70·01	11,942,830
London Joint Stock ..	1,800,000	17,850,504	2,988,579	3,556,092	10,175,847	13,731,939	3,775,540	16·73	19·92	21·15	20,962,969	65·50	10,200,000
National ..	1,500,000	13,279,561	1,860,479	1,698,685	9,723,523	11,422,208	1,829,482	14·00	12·78	13·77	15,411,602	74·11	6,000,000
Parr's.. ..	1,708,500	29,003,962	4,329,186	6,952,557	16,285,604	23,238,161	4,387,865	14·92	23·97	15·12	32,765,356	70·92	6,834,000
Union of London & Smith's	3,554,786	36,015,876	6,421,551	6,587,603	21,122,573	27,710,176	5,985,065	17·82	18·29	16·61	41,673,496	66·49	19,379,314
	£26,627,736	391,479,220	65,380,227	56,643,199	237,521,903	294,165,102	66,829,748	16·70	14·46	17·07	437,464,736	67·24	106,757,044

Notes to Bank Statements.—

(1) It is interesting to note that the Union of London & Smith's Bank, in their published Balance Sheet, separate the Cash lodged at the Bank of England from the actual Cash in Hand.

The figures at the 30th June 1908 were as follows:—

	£
Cash in hand	3,009,231
Cash at the Bank of England	3,412,320
	£6,421,551

This practice has not been generally followed, although it was initiated by the well-known Authority on the question of gold reserves, Sir Felix Schuster, Bart., who is the Governor of this Bank.

(2) Amongst the deposits shown in the case of Parr's Bank are Notes in circulation in the Isle of Man amounting to £7,066. In the case of the National Bank the Notes in circulation in Ireland amount to £1,126,720. These are also included in the figure of deposits given.

ACCOUNTANCY

AND

LAW PUBLICATIONS.

GEE & CO., PUBLISHERS, 34 MOORGATE STREET, LONDON, E.C.

1909.

Accountancy and Law Publications.

	Price Post Free U.K.	Price Post Free Abroad.
Accountant, The. Weekly	-/6½	-/7
,, ,, Per annum, post free	24/-	26/-
,, ,, Binding Cases	2/9	2/10
,, ,, File Cases	3/11	
Accountants' Journal. Monthly	-/10	-/10
,, ,, Per annum	7/6	8/6
,, ,, Binding Cases	2/9	2/10
,, ,, File Cases	1/4	
,, **and Bookkeeper's Vade-Mecum.** (Whatley)	7/6	8/-
,, **Assistant.** (Beckett)	6/-	6/6
,, **Code** ... ... doz.	5/-	5/3
,, **Compendium.** (Dawson) (3rd Edition)	25/-	26/6
,, **Diary.** I. (Foolscap 1 day to page) ...	8/-	
,, ,, II.c (,, 2 ,,) cloth	5/-	6/4
,, ,, II. (,, 2 ,,) ...	3/6	4/8
,, ,, III. (,, 3 ,,) ...	1/6	2/4
,, ,, III.A (,, 3 ,,) ...	2/-	2/10
,, ,, IV. & IV.F. (8vo 1 ,,) ...	5/-	5/8
,, ,, V. (,, 2 ,,) ...	2/6	3/-
,, **Manual.** Vols. I., to XI. ... each	12/6	13/2
,, ,, Vol. III.	10/6	11/2
,, ,, The set of XI. Vols. ...	110/-	115/6
Advanced Accounting. (Dicksee) (3rd Edition)...	21/-	22/4
Agricultural Accounts. (Meats)	5/4	5/5
Ante-Audit ... ... each	1/1	1/1
,, ... ½ doz.	5/6	5/10
,, ... doz.	10/-	10/6
Auctioneers' Accounts. (Dicksee) (2nd Edition)	3/9	3/10
Audit Note Books I. & II. ... ... each	-/7	-/7
,, ,, ,, ,, ... doz.	5/-	5/7
,, ,, ,, ,, ... 100	40/-	42/6
,, ,, ,, **III.** ... ... each	2/3	2/3
,, ,, ,, ,, ... doz.	20/-	22/6
,, ,, ,, ,, ... 50	70/-	85/-
,, ,, ,, ,, ... 100	110/-	130/-

GEE & CO., 34 MOORGATE ST., LONDON, E.C.

	Price Post Free U.K.	Price Post Free Abroad.
Forms of Accounts. (Johnston)	2/9	2/10
Fraud in Accounts	3/9	3/10
Friendly Societies' Accounts. (Furnival Jones)...	5/4	5/5
,, **Societies' Accounts and Statistics, a Card System for.** (Marr)	1/1	1/1
Gas Accounts (2nd Edition)	5/3	5/5
Goodwill and its Treatment in Accounts. (Dicksee & Tillyard) (3rd Edition)	5/6	5/10
Grain, Hay, &c., Accounts. (Johnson)	3/9	3/10
Grocers' Bookkeeping. (Jenkinson)	1/2	1/2
Hire-Purchase Wagon Trade, &c., Bookkeeping and Accounts for. (Johnson)	1/8	1/9
Hotel Accounts. (Dicksee)	3/9	3/11
How to Read a Balance Sheet. (Pixley) ...	-/7	-/7
Income Tax on Earnings. (Isaacs)	-/7	-/8
,, ,, **Practice, Guide to.** (Murray & Carter) (5th Edition)	12/6	13/4
,, ,, **Simplex Guide to.** (Carter)	2/9	2/9
Insurance Companies' Accounts. (Tyler) ...	10/6	11/-
Investment and Loan Societies' Accounts. (Brown & Thomas)	5/4	5/4
Jewellers' Accounts. (Allen Edwards)	5/4	5/6
Laundry Accounts. (Livesey)	3/9	3/10
Legal Decisions Affecting Auditors, a Summary of. (Cocke)	1/1	1/2
Lexicon for Trustees in Bankruptcy, &c. Bound Boards. (Dawson)	3/9	4/-
Limited Partnership Act, 1907. (Davies) ...	1/7½	1/7½
List of Members. (Institute of Chartered Accountants)	2/3	2/6
Local Authorities' Accounts, Audit and Organisation of. (Collins)	12/6	13/4
Medical Practitioners' Accounts. (May)... ...	3/9	3/10
Metric System. (Streeter)	1/1	1/2
Mineral Water Manufacturers' Accounts. (Lund & Richardson)...	3/9	3/10
Money Market, An Outline of the. (Spicer) ...	2/2	2/3
Multiple Cost Accounts. (Garry)	3/9	3/11
,, **Shop Accounts.** (Hazelip)	3/9	3/11
Municipal Accounts. (Allcock)	10/6	11/-
,, **Finance and Accounts, Some Aspects of.** (Miller)	-/7	-/7
,, **Finance for Students**	2/9	2/9

	Price Post Free U.K.	Price Post Free Abroad.
Municipal Internal Audit. (Collins)	3/9	3/11
,, **Rating.** (Pearce)	5/4	5/5
Newspaper Accounts. (Norton & Feasey) ...	10/-	10/6
Parliamentary Companies. (Keen)	1/1	1/2
Partnership Accounts. (Child) (4th Edition) ...	2/9	2/10
Pawnbrokers' Accounts. (Thornton & May) ...	3/9	3/10
Personal and Domestic Accounts. (Ibotson) ...	1/2	1/2
Polytechnic Accounts. (Calder Marshall) ...	3/9	3/10
Printers' Accounts. (Lakin-Smith)	3/9	3/10
Professional Accountants. (Worthington) ...	2/9	2/10
Publishers' Accounts. (Allen)	2/9	2/10
Quarry Accounts. (Ibotson)	3/9	3/10
Railway Accounts (Fisher's), A Digest of. (Anderson)	3/9	3/10
Rating, Municipal. (Pearce)	5/4	5/5
Receiver and Manager in Possession. (Binnie)	2/8	2/9
Retail Traders, Account Book for. (Day) ...	5/4	5/7
Shipping Accounts. (Daly)	3/9	3/10
Shopkeepers' Accounts. (Quin) (2nd Edition) ...	2/9	2/10
Solicitors' Accounts. (Dicksee)	3/9	3/10
Some Legal Terms	1/1	1/1
Stamp Duties and Receipts, Handbook to. (Lakin-Smith)	2/9	2/9
Stockbrokers' Accounts. (Callaway)	3/9	3/10
Student's Guide to Accountancy. (2nd Edition)	2/9	2/9
Table A. [Revised]	-/7	-/7
Terminal Cost Accounts. (Nesbit)	3/9	3/10
Theatre Accounts. (Chantrey)	3/9	3/10
Timber Merchants' Accounts. (Smith)	3/9	3/10
Tramway Bookkeeping and Accounts. (McColl) with Supplement	12/6	13/2
Tramway Bookkeeping and Accounts Simplified. (The supplement to above work) (McColl) separately	2/9	2/9
Trial Balance Book, "Handy" ... ... each	-/7	-/7
,, ,, ,, ,, ... doz.	5/4	5/8
Trustees, Chart of the Rights and Duties of. (Willson)	1/3	1/3
,, **Liquidators, and Receivers, Accounts of.** (Dawson)	3/9	3/10

	Price Post Free U.K.	Price Post Free Abroad.
Trustees, Liquidators, and Receivers, Law of (Willson) (2nd Edition)	10/-	10/6
Underwriters' Accounts. (Spicer & Pegler) ...	3/9	3/10
Urban District Councils' Accounts. (Eckersley)	5/4	5/5
Vade-Mecum, Accountant's and Bookkeeper's. (Whatley)	7/6	7/11
Van de Linde's Bookkeeping. (2nd Edition) ...	7/6	8/2
Water Companies' Accounts. (Key)	3/9	3/10
Wine and Spirit Merchants' Accounts. (Sabin)...	5/4	5/6
Woollen, &c., Accounts. (Mackie)	3/9	3/10

GEE & CO., Publishers,

34 MOORGATE STREET, LONDON, E.C.

Particulars and Prospectuses of any of the above works sent on application

Authors are invited to communicate with Messrs. GEE & CO. as to the Publication of Works on Accountancy subjects.

DEPRECIATION, RESERVES, AND RESERVE FUNDS. Second Edition. Price 3*s.* 9*d.* net, post free U.K.; abroad 3*s.* 10*d.* 80 pages. By LAWRENCE R. DICKSEE, M.Com., F.C.A. This Work deals fully and impartially with the most Debatable and Important Subjects in connection with Accounts. It is divided into Twelve Chapters, with a Complete Index, and is the most Exhaustive Work upon the subject that has yet been issued.

DUTIES OF AUDITORS UNDER THE COMPANIES ACT, 1907. 68 pages. Price 1*s.* 1*d.* net, post free. A Series of Articles Reprinted from *The Accountant.* The Full Text of the Companies Acts, 1900 and 1907, and of Counsel's Opinion thereon. The whole forming a concise and portable handbook, invaluable to all Auditors.

EARLY STAGES of PREPARATION for the ACCOUNTANCY PAPERS of the INTERMEDIATE. By A. E. CUTFORTH, A.C.A. Price 2*s.* 9*d.* net, post free U.K. and Abroad.

ELECTRIC LIGHTING ACCOUNTS. Price 5*s.* 4*d.* net, post free U.K.; abroad 5*s.* 5*d.* Over 140 pages. By GEORGE JOHNSON, F.S.S., F.C.I.S. This Work deals very fully with the Accounts of Electric Lighting Companies. It is divided into 18 Chapters, and contains a set of *pro formâ* transactions, with a complete index.

EXAMINATION GUIDES.—INTERMEDIATE AND FINAL. Price 3*s.* 9*d.* and 5*s.* 4*d.* net, post free UK.; and 4*s.* and 5*s.* 7*d.* post free abroad, respectively. By JOHN G. NIXON, Junr., A.C.A. These Books have been compiled in order to provide Accountant Students with a series of the Questions actually set at the Examinations of the Institute.

EXECUTORS AND TRUSTEES, BOOKKEEPING FOR. By L. WHITTEM HAWKINS, A.C.A. 84 pages. Price 3*s.* 9*d.* net, post free U.K.; abroad 3*s.* 11*d.* Contains full and explicit directions for keeping the Books and preparing the Accounts of Trust Estates, supplemented by a Specimen Set of Books and Examples of Statements of Account. The Specimen Set of Books is specially bound, so that it can be examined side by side with the text relating to it.

EXECUTORSHIP ACCOUNTS. Third Edition. (2nd Thousand). Price 3*s.* 9*d.* net, post free U.K. and Abroad. Revised under the FINANCE ACT and brought up to date. By O. H. CALDICOTT, F.C.A. Containing a COMPLETE SET of TRUST ACCOUNTS with explanatory text.

EXECUTORSHIP ACCOUNTS, STUDENT'S GUIDE TO, with 1907 Supplement. 264 pages. Price 5*s.* 4*d.* net, post free U.K.; abroad 5*s.* 6*d.* By ROGER N. CARTER, F.C.A. (Senior Honours Institute Examination, June 1893), Joint Author with Mr. Adam Murray, F.C.A., of "A Guide to Income-Tax Practice."

EXECUTORSHIP LAW AND ACCOUNTS. Second Edition. Price 7*s.* 6*d.* net, post free U.K.; abroad 7*s.* 11*d.* Revised and brought up to date by FREDERICK WHINNEY, Junr., B.A., Barrister-at-Law, assisted by ARTHUR P. VAN NECK, M.A., Barrister-at-Law. Containing an Epitome of a Will and a Set of Executorship Accounts. By ARTHUR F. WHINNEY, F.C.A.

FRAUD IN ACCOUNTS. Price 3*s.* 9*d.* net, post free U.K.; abroad 3*s.* 10*d.* This Work deals with the methods of circumventing Frauds on the part of both Employees and Directors, and shows how they may be detected at an early date.

GAS ACCOUNTS Second Edition. (Vol. VII. of "THE ACCOUNTANTS' LIBRARY.") Price 5*s.* 4*d.* net, post free U.K.; abroad 5*s.* 5*d.* This Work—which comprises 128 pages—deals fully with the Accounts of all classes of Gas undertakings. It contains an Introduction and Seven Chapters, and a Full Index is appended.

GOODWILL. Third Edition. Revised and Enlarged. By LAWRE[...] abroad [...] post free U.K.; Professor Dicksee's [...]lume has been so [...] *entirely New and* [...]*tant Students, and*

I[...] [...]TO. Fifth [...]ee U.K.; abroad [...]red Accountants, [...]nents relating to [...] for Assessment [...]ssessment; also [...]ar digest of the

IN[...] [...] C[...] A[...] s[...] fc[...] th[...] cc[...] REPAY- [...]y ROGER N. [...] free U.K. and [...]inquiries for a [...]t the leisure to [...] also hoped that [...]aminations and

LIM[...] th[...] U.[...] Li[...] to an[...] of an [...] containing [...] 8*d*. post free [...]fully with the [...]sions relating [...]p Act, 1890, [...] the full text [...]ct, 1890, with

LOC[...] IS[...] F.S. The men[...] Prof[...] men[...] of fi[...] leadi[...] of A[...] [...]RGAN- [...] COLLINS, [...]oad 13*s*. 4*d*. [...] of Govern- [...], and every [...]the Depart- [...]ate methods [...] use in the [...]ay systems

MONE[...] ERNE[...] This b[...] and s[...] prese[...] the F[...] with in[...] [...]E. By [...]oad 2*s*. 3*d*. [...]liest times, [...]which our [...]Bank Rate, [...] are dealt

MONT[...] By ART[...] This lit[...] dates. subject length c[...] Duties o[...] are in cc[...] THE. [...] Abroad. [...]n Candi- [...] of each [...] for any [...]ghts and [...] thereon [...]paration.

MUNIC[...] U.K.; a[...] system o[...] [...]st free [...] facsimiles of all Books and Forms recommended are given. [...] of Municipal Accounts is dealt with, and [...] this volume the entire

MUNICIPAL FINANCE FOR STUDENTS. Price 2*s*. 9*d*. net, post free U.K. and Abroad. This Work on the most important features in Local Government Finance has been published in pursuance of an effort to respond to the demand for works on Municipal Accountancy at a reasonable price suitable for Students preparing for Examinations.

MUNICIPAL INTERNAL AUDIT, A. Price 3*s.* 9*d.* net, post free U.K.; abroad 3*s.* 11*d.* 150 pages. By ARTHUR COLLINS. This Work will be found to be of especial importance to Municipal Financial Officers, Auditors of Municipal Accounts, Students of Municipal Accountancy, and members of the Profession engaged in the keeping and Audit of Municipal Accounts.

MUNICIPAL RATING AND THE COLLECTION OF RATES. By A. JAMES PEARCE, A.C.A. 96 pages. Price 5*s.* 4*d.* net, post free U.K.; abroad 5*s.* 5*d.*

RAILWAY ACCOUNTS, A DIGEST ON. By A. C. ANDERSON, Chartered Accountant. 96 pages. Price 3*s.* 9*d.* post free U.K.; abroad 3*s.* 10*d.* This work sets out briefly and concisely the sources from which the figures appearing in the published accounts of a Railway Company are compiled, the author, in the course of an extensive t[...]eoretical study of the Accounts of Railways, having found the need of a small r[...]tulatory book of this nature.

RECEIVER AND MANAG[...] IN POSSESSION, THE. 52 pages, demy 8vo. [...] 2*s.* 8*d.*, post free. By A. BINNIE, Chartered Accountant. [...] methods by which the Receiver and Manager carries out the pra[...] evolving upon him after his appointment, deals with many [...]s which confront him, and contains useful forms and direction[...] preparation and vouching of the Receiver and Manager's Accou[...]

SOLICITORS' ACCO[...] 3*s.* 9*d.* net, post free U.K.; abroad 3*s.* 10*d.* B[...]SEE, M.Com., F.C.A. This Volume is designed to me[...]her large or small practices. The system of Accounts[...]ed, and numerous alternative methods, suitable und[...] fully dealt with. The work contains a fully wo[...]sactions, illustrating the correct method of keepin[...]

STOCKBRO[...]S. Second Edition. Price 3*s.* 9*d.* [...]od. By W. D. CALLAWAY, Chartered Acco[...]ing and Accounting that obtains on the Lo[...]ained in this book, which also contains a[...]rds and Phrases, a comprehensive Index,

[...] TO ACCOUNTANCY, THE. [...] 9*d.* net, post free U.K. and Abroad. This Work gives a description of the prospects offered by Accountancy as a profession, and the best means of securing an entrance thereto, and points out to the Student the means of employing the time during his articles to the best advantage.

TRAMWAY BOOKKEEPING & ACCOUNTS (with Supplement). By DONALD MCCOLL. 290 pages. Price 12*s.* 6*d.* net, post free U.K.; abroad 13*s.* 2*d.* Price of Supplement separately, 50 pages, demy 8vo, 2*s.* 9*d.* net, post free. This Work is based upon the very thorough and up-to-date methods in operation in the Glasgow Corporation Tramways Department, and will be of the greatest service to Tramway Officials. The entire System of Accounting is clearly and fully described, and facsimiles of all the Books and Forms recommended are given. In the Supplement is indicated some improvements in the organisation of a system of tramway accounting. The Author was enabled in a foreign city to obtain better results with less labour than is involved in carrying out the methods described in the first part of this volume.

TRUSTEES IN BANKRUPTCY, LIQUIDATORS AND RECEIVERS, THE LAW OF. 2nd Edition. Revised and Enlarged. Price 10*s.* net, post free U.K.; abroad 10*s.* 6*d.* By W. R. WILLSON, B.A. Oxon., and of the Middle Temple, Barrister-at-Law. Being a succinct statement of the law on those subjects as established by the ***latest Statutes and Decisions, written analytically*** for ***Students*** with a ***view*** to ***the Examinations of the Institute and Society of Accountants***; with a large Chart illustrating the leading features of the offices of Trustees, Liquidators, and Receivers.

WATER COMPANIE[redacted]ver 80 pages. Price 3*s.* 9*d.* net, post free U.[redacted] KEY, A.S.A.A. This Work—which forms Vol. [redacted]IBRARY" series —deals at length with the Ac[redacted]d describes the various necessary books. The [redacted] full *pro forma* Accounts, and extracts from th[redacted]nded.

2/- net